

**MULTIPHASE PROGRAM FOR INSTITUTIONAL TRANSFORMATION OF THE
HEALTH SECTOR
PHASE I
(PN-0076)**

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Panama		
Executing agency:	Ministry of Health (MINSA)		
		Phase One	Phase Two
Amount and source:	IDB: (OC)	US\$35 million	US\$63 million
	Local:	US\$15 million	US\$27 million
	Total:	US\$50 million	US\$90 million
Financial terms and conditions:	Amortization period:	25 years	
	Grace period:	3.5 years	
	Disbursement period:	3.5 years	
	Interest rate:	Variable	
	Inspection and supervision:	1% of the loan amount	
	Credit fee:	0.75% of the undisbursed amount	
	Currency:	US\$ Single Currency Facility	
Objectives:	This investment loan will help improve the health and quality of life of the Panamanian population, through institutional transformations to enhance efficiency, effectiveness, quality, sustainability, and equity in the organization, delivery, financing, and regulation of health services. To this end, the project will be based on the following specific objectives, to: (i) increase MINSA’s capacity to act as the governing and regulatory body for the sector; (ii) increase coverage of basic health care services for groups living in extreme poverty; and (iii) transform management for health service delivery.		
Description:	The program will have two phases. Phase one will last three years and will focus on: (i) proposing and implementing institutional changes in critical areas of sector regulation; (ii) designing and implementing innovations in the delivery of basic health services for the poorest people in Panama; and (iii) launching the decentralization of service management in five of the 14 health regions in the country. Phase two,		

which will have an execution period of three years, will promote consolidation of the institutional transformations made under phase one by: (i) extending decentralization to all 14 regions in the country; and (ii) institutionalizing innovations in the delivery of basic services as a way to increase service coverage. Phase one will consist of three components:

Component 1. Institutional transformation of MINSA as a governing and regulatory body (US\$6.5 million)

MINSA will be transformed through two types of activities: (i) activities to promote transformations within MINSA, including changes in its incentive structure and organizational model, and to improve administrative and technological processes; and (ii) activities to transform policy-making and implementation and outreach activities that will have an impact on sector stakeholders.

For the **internal transformation**, the program will promote: (i) the adaptation of MINSA's organizational structure and model; (ii) advances in information management; and (iii) the development of social marketing strategies as a tool for promoting the program, for strategic management of the changes, and as an intersector health promotion tool.

Regarding **sector institutional change**, the project will focus on: (i) formulating and implementing human resource development policies for the sector, including certification and accreditation, research on health sector performance, and regulation of the pharmaceuticals sector; and (ii) support for intersector coordination between MINSA and the Social Security Administration (CSS), for the specific purpose of preparing and executing a joint master investment plan; and formulating and implementing a rate schedule to standardize service pricing by MINSA and the CSS.

Component 2. Innovations in the delivery of basic primary care services (US\$24.8 million)

This component will increase coverage of basic health services by providing a comprehensive package of health services (PAISS) to up to 450,000 of the poorest residents in Panama by the end of phase one. The package contains highly cost-effective primary care interventions that will be delivered under contract by various types of noninstitutional organizations (OEs), including NGOs, civic organizations, religious organizations, and cooperatives. To achieve its purpose, the component will conduct the following concurrent

activities: (i) strengthening of stakeholders; (ii) targeting poor communities; and (iii) monitoring and evaluation. Bank financing will decline over time to promote financial ownership by the country.

Component 3. Transformation of management for health service delivery (US\$11 million)

The objective here is to enhance the efficiency, equity, and quality of service delivery at all institutional levels in MINSA, by changing the rules and incentives governing the relationship between the financing and delivery of services. The basic strategic goals are to begin decentralizing management in five health regions, reorganize the operation and internal relations of regional health care facilities, and promote improved management in five hospitals by developing new management instruments and making data management systems available.

Three subcomponents will be implemented under this component: (i) promote decentralized management, by delegating responsibility for financial management and human resources; (ii) reorganize supply, by implementing pilot service networks; and (iii) improve administrative and clinical hospital management.

The Bank's country and sector strategy:

The Bank's strategy for Panama focuses on four priority areas: (i) support for the frontal attack on poverty and for enhancing equity; (ii) promoting economic reforms to spur competitiveness and growth; (iii) consolidation of the regulatory, legal, and institutional framework for sustainable growth; and (iv) institutional reforms to strengthen governance and improve transparency.

The Bank's strategy to support health in the country seeks to improve services, placing emphasis on the poor and institutional transformation of the sector. This strategy promotes a series of changes in resource allocation schemes, financing mechanisms, and building incentives for service management and fosters the specialization of MINSA as the governing and regulatory agency for the sector. Public spending on health is to target the lowest-income segments of the population and help address the great inequalities.

Environmental and social review:

The project will incorporate current regulations on environmental permits in all investments in civil works and the procurement of equipment financed with the proceeds of the proposed loan (paragraph 2.51). The project will promote the inclusion of environmental issues in health facility certification and accreditation protocols (paragraph 2.21). The terms of reference for contracts or purchase agreements for goods and services prepared under component 2 will contain

provisions to guarantee compliance by contractors with current environmental regulations (paragraph 3.16). The activities to improve hospital management will include an environmental management module covering waste management and planning, occupational health, and other issues (paragraph 2.59).

Benefits:

The proposed program will support the delivery of primary health care services to up to 450,000 persons living below the poverty line. The delivery of a package of highly cost-effective interventions aimed at low-income groups, particularly women and children, is a way to target public spending to simultaneously attack the problems of inequality in access and inefficiency in resources allocation. A gender approach will be promoted, both in selecting community organizations and in the design of the package of benefits. The information system will break down the data by gender to gauge the impact of the program on women, in terms of quality and equity.

The indigenous population is also targeted, given its high rate of extreme poverty. The program will allow for consultation with the target groups to adjust the package design and delivery modalities so that delivery of the PAISS will respect and incorporate the specific sociocultural and epidemiological characteristics of indigenous populations.

Risks:

Groups of health workers may resist the decentralization process and innovations in the delivery of basic health care services for the poor. In the case of the innovations, coverage will be expanded through the PAISS to communities where there are no health services available, either for lack of infrastructure or staffing; the program will thus not directly compete with government health care supply and will not involve closing any MINSA health facilities. Moreover, to minimize the risk of health workers obstructing the activities of the noninstitutional organizations (OEs), the regional offices will receive funds from the fund for integral medical tours (FOGI) to implement activities similar to the delivery of the PAISS, enabling them to respond on equal footing in terms of available inputs. The program will use social marketing resources to inform interested parties that the program objective is to help make public and private services complement each other, not to replace one with the other.

In the case of decentralization, public information management and the social marketing strategy will give MINSA the tools to identify potential risks and respond effectively by training human resources. There is a risk that the health regions may prove resistant to the proposed decentralization if it does not yield tangible results. The program analyzed a menu of options and selected a set of tangible changes desired by the regions in finances and human resources. The

program will promote coalitions among service providers, government, and the public, showing the benefits to each stakeholder and the advantages of working together.

There is a risk that an appropriate understanding may not be reached with the CSS for coordination purposes. The program will support the formulation of technical arguments and identification of a limited number of interface points, to focus the discussion and ensure sufficient quantitative support.

The first phase of the program will be executed during the term of office of the current administration. Preparation of the final report will coincide with the change in government, and there is a risk of delays during the transition process. This risk will be mitigated by: (i) presenting the institutional progress in the sector and the program's contribution; and (ii) presenting a proposal for the new table of benchmarks that reflects recent sector changes and the strategic lines of the incoming administration.

Special contractual clauses:

As a condition precedent to the first disbursement, evidence must be submitted that an agreement has been entered into by MINSA and the United Nations Development Programme (UNDP) to carry out financial management activities. The draft agreement must be approved by the Bank before being signed (paragraph 3.9).

Annual technical reviews and a mid-term evaluation must be conducted during program execution (paragraph 3.34).

Consulting services will be hired to conduct a concurrent evaluation of the program, which will include preparing quarterly progress reports on the program (paragraph 3.36).

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as described in the key objectives of Bank activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704) (paragraphs 4.13-4.14). It also qualifies as a poverty-targeted investment (PTI) (paragraph 4.18). The borrower will not be using the 10 percentage points in additional financing (paragraph 2.63).

Exceptions to Bank policy:

The UNDP would be directly hired as specialized agency to carry out financial management activities in support of the UGAF. The UNDP costs would be charged to the local counterpart funding (see paragraphs 3.8 and 3.9).

Procurement:

International public bidding will be required: (i) for building works valued at over US\$1,000,000; and (ii) procuring goods and related services valued at over US\$250,000. There will be an international

request for tenders for consulting services over US\$200,000. For lesser amounts, the special procedures contained in Annex D to the loan contract will be applied.

For contracting PAISS services, a registry of qualified firms will remain open during program execution. Fixed budget contracts will be used, as provided for in document GN-1679 on changes to Bank policy on hiring consulting services. Contract amounts will be pre-established by multiplying the predetermined per capita value by the population to be served. Firms will be selected to deliver the services based exclusively on their technical proposal (paragraphs 3.21 and 3.22).